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agers to run their portfolios at higher turnover rates than mutual funds without affecting shareholders, says Mike Kellett, vice president of marketing for MIMLIC. This can especially benefit growth fund managers looking for stocks with the most momentum.

However, Roger Honour, lead manager for **Montgomery Growth**, says he

runs his fund and his annuities exactly the same way. In fact, portfolio turnover has declined recently. "All the names are the same, we just keep more cash in the annuities," he says, "because they were hit with big redemptions last spring."

–Greg Carlson

Fund I.Q. "Risk"

Rate the following in order of risk: (1) Stock funds, (2) Treasury bond funds, (3) Junk bond funds.

Answer below

Answer: Hah! Bet you "Fund IQ" junkies thought we were giving you an easy one this time. Of course, if you know the answer, it is easy. But our telephone surveys of magazine readers show that less than one in 20 get the right answer, and that answer is simply 1, 2, 3 - stock, Treasury bond, junk bond. Three-fourths of all investors mistakenly believe junk bonds and junk bond funds are riskier than stocks and stock funds. Not true. Junk bond funds are much less volatile than stock funds, on average. Furthermore, they have substantially less credit risk. Companies always pay bond interest before dividends on stocks, and bondholders always get their due before stockholders in the event of a bankruptcy.

What may be more surprising, however, is that Treasury bond funds are also riskier than junk bond funds in terms of price volatility. Of course, securities issued by the U.S. Treasury have no credit risk, while junk bonds, issued by less-than-investment-grade corporations, carry significant credit risk. But in the marketplace, Treasury bonds fluctuate far more sharply than junk bond funds because they are acutely subject to interest-rate risk; i.e., Treasury bond prices can fall sharply in response to a rise in interest rates. As a general rule, the longer the bond maturity and the higher the credit quality of the bond issuer, the greater the interest-rate risk, and the more volatile, and hence riskier, the bond.